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## **Arbitration in SEP/FRAND disputes: overview and core issues**

Picht, Peter Georg ; Loderer, Gaspare Tazio

**Abstract:** This article takes a look at arbitration in intellectual property matters with regards to the licensing of standard-essential patents (SEPs) on fair, reasonable, and non-discriminatory (FRAND) terms. Due to the digital transformation, the importance of FRAND licensing of SEPs is likely to increase and with it the need for appropriate conflict resolution. This is where arbitration can come into play due to its flexibility and efficiency. The resolution of SEP/FRAND disputes through Alternative dispute resolution (ADR) is also supported by administrative and judicial bodies and institutions such as the International Court of Arbitration of the International Chamber of Commerce (ICC) or the World Intellectual Property Organization (WIPO) have already gained experience in this field. The article lays down particularities regarding the scope of arbitration in such disputes before briefly touching upon the question of arbitrability. Due to the lack of a law applicable to a pre-existing contract in prototypical SEP/FRAND constellations, the choice of law is also of importance. A special emphasis is put on the issue of confidentiality in view of a public interest in having access to key results of SEP/FRAND arbitration proceedings. As set forth in the article, the FRAND ADR Guidelines authored by the Munich IPDR Forum propose a solution in the form of disclosure of the FRAND determination methodology to a neutral instance, subject to party approval. Lastly, the article looks at how state courts might assess licenses reached in alternative dispute resolution and examines whether EU competition law is a public policy hurdle in subsequent enforcement proceedings.

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# Arbitration in SEP/FRAND Disputes: Overview and Core Issues

Peter Georg PICTH<sup>\*</sup> & Gaspare Tazio LODERER<sup>\*\*</sup>

*This article takes a look at arbitration in intellectual property matters with regards to the licensing of standard-essential patents (SEPs) on fair, reasonable, and non-discriminatory (FRAND) terms. Due to the digital transformation, the importance of FRAND licensing of SEPs is likely to increase and with it the need for appropriate conflict resolution. This is where arbitration can come into play due to its flexibility and efficiency. The resolution of SEP/FRAND disputes through Alternative dispute resolution (ADR) is also supported by administrative and judicial bodies and institutions such as the International Court of Arbitration of the International Chamber of Commerce (ICC) or the World Intellectual Property Organization (WIPO) have already gained experience in this field. The article lays down particularities regarding the scope of arbitration in such disputes before briefly touching upon the question of arbitrability. Due to the lack of a law applicable to a pre-existing contract in prototypical SEP/FRAND constellations, the choice of law is also of importance. A special emphasis is put on the issue of confidentiality in view of a public interest in having access to key results of SEP/FRAND arbitration proceedings. As set forth in the article, the FRAND ADR Guidelines authored by the Munich IPDR Forum propose a solution in the form of disclosure of the FRAND determination methodology to a neutral instance, subject to party approval. Lastly, the article looks at how state courts might assess licenses reached in alternative dispute resolution and examines whether EU competition law is a public policy hurdle in subsequent enforcement proceedings.*

## 1 INTRODUCTION

Alternative dispute resolution (ADR) in intellectual property (IP) matters is by no means a new phenomenon.<sup>1</sup> Of late, however, it has considerably increased its traction in the field of, and due to, the licensing of standard-essential patents (SEPs) on fair, reasonable, and non-discriminatory (FRAND) terms.<sup>2</sup> Some spectacular

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<sup>1</sup> See e.g. ICC Case No. 6097, Interim Award of 1989, 4 ICC Bulletin 76 (1993); Higher Regional Court of Cologne (OLG Köln), 19 Sch. 8/11 (16 July 2012); Federal Patent Court (BPatG), 33 W (pat) 58/10 (12 June 2012).

<sup>2</sup> See Peter Chrocziel, Boris Kasolowsky, Robert Whitener & Wolrad Prinz zu Waldeck und Pyrmont, *International Arbitration of Intellectual Property Disputes – A Practitioner's Guide* (2017); Peter G. Picht,

SEP/FRAND arbitration proceedings have taken place<sup>3</sup> and the legal development was fostered by projects such as the SEP communication of the EU Commission<sup>4</sup> and the 'FRAND ADR Case Management Guidelines' of the Munich IP Dispute Resolution Forum.<sup>5</sup> As the trend is likely to intensify, it seems worthwhile to take a closer look at this specific field of IP ADR. Alternative dispute resolution in SEP/FRAND matters is not completely different from other IP or commercial proceedings. Some aspects, however, are particular and this article aims at highlighting a selection of them.

## 2 REASONS FOR THE GROWING IMPORTANCE OF IP AND SEP/FRAND ARBITRATION

### 2.1 STANDARD-SETTING – FRAND LICENSING – DIGITAL TRANSFORMATION

If a technical standard contains components for which patents have been granted, market players who wish to use the standard for products or other market activities (standard implementers) have an interest in being able to do so without restrictions on the part of the patent holder and, if possible, without having to pay royalties. The patent owner, on the other hand, wants to exert at least some sort of control over the use of its patented technology. In many cases, the patentee also wishes to receive royalties, cross-licenses or some other quid pro quo. Sometimes, it is its goal to prevent use of the patented technology by certain implementers altogether.

These diverging positions might be reconciled if the patent holder is required to license its patents on reasonable terms and conditions. In principle, this ensures access and use for the standard implementer as well as control and compensation for the patent owner. Ideally, such a licensing scheme would also prevent questionable attempts to enforce one's own interests, as described by the (in)famous

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*International Arbitration of Intellectual Property Disputes – A Practitioner's Guide*, GRUR 679 (2017); Daniel K. Kaneko, *EU-Einheitspatent und Schiedsverfahren* (2018); Michael Groß, *IP-/IT-Mediation* (3rd ed., 2018); Nadine Haubner, *Patentstreitigkeiten und Schiedsgerichtsbarkeit*, InTeR 239 (2014); Peter G. Picht, *Einheitspatentsystem: Die Kompetenzreichweite des Mediations- und Schiedszentrums*, GRUR Int. 1 (2018); see also WIPO's Caseload Summary: [www.wipo.int/amc/en/center/caseload.html](http://www.wipo.int/amc/en/center/caseload.html) (all Internet sources last accessed on 18 June 2019).

<sup>3</sup> *BlackBerry v. Qualcomm* ([www.marketwatch.com/story/blackberry-awarded-final-940-million-in-arbitration-with-qualcomm-over-royalties-2017-05-26](http://www.marketwatch.com/story/blackberry-awarded-final-940-million-in-arbitration-with-qualcomm-over-royalties-2017-05-26)); *InterDigital v. Huawei* (<https://thepatentinvestor.com/2016/04/interdigital-fends-off-huawei-effort-to-annul-arbitration-award-in-paris-allowing-case-in-federal-court-to-proceed>); *Nokia v. LG Electronics* ([www.ipwatchdog.com/2017/09/26/nokia-favorable-arbitration-award-patent-license-lg-electronics/id=88063](http://www.ipwatchdog.com/2017/09/26/nokia-favorable-arbitration-award-patent-license-lg-electronics/id=88063)), *Nokia v. BlackBerry* ([www.reuters.com/article/us-blackberry-nokia-patents/blackberry-loses-payment-dispute-with-nokia-to-pay-137-million-idUSKBN1DV517](http://www.reuters.com/article/us-blackberry-nokia-patents/blackberry-loses-payment-dispute-with-nokia-to-pay-137-million-idUSKBN1DV517)), *Apple v. Samsung*.

<sup>4</sup> EU Commission, Communication from the Commission to the European Parliament, the Council, and the European Economic and Social Committee, Setting out the EU Approach to Standard Essential Patents, COM(2017)712 final (29 Nov. 2017).

<sup>5</sup> See [www.ipdr-forum.org/guidelines](http://www.ipdr-forum.org/guidelines).

terms ‘hold-up’ (‘extortion’ of inappropriate licensing conditions by the patent holder) and ‘hold-out’ (attempt to avoid, in particular by delaying tactics, the taking of and paying for a license by the implementer).<sup>6</sup> A SEP owner’s obligation to license stems, in its prototypical constellation, from a FRAND licensing commitment declared to the respective standard-setting organization (SSO). Although the commitment is, technically, a voluntary one, it results at least partly from the fact that many SSOs make the declaration of SEPs – or, more precisely, of patents their owners perceive as being or becoming standard-essential – and the submission of FRAND licensing declarations for these patents a precondition for the inclusion of patent protected technology into the standard, a fact that ensures comprehensive availability of a FRAND licensing option.<sup>7</sup> The advantages of this mechanism, together with the great (economic) importance of technical standards for the market players concerned and for the general welfare,<sup>8</sup> especially in the information and communication sector (ICT),<sup>9</sup> have led to FRAND licensing being widely recognized (sometimes too enthusiastically) as an approach worthy of support.<sup>10</sup>

At the same time, however, even this simplified sketch of the FRAND mechanism, which in practice knows many variants,<sup>11</sup> reveals several points of

<sup>6</sup> See Vincent Angwenyi & Marie Barani, *Smokescreen Strategies: What Lies Behind the Hold-up Argument?*, GRUR Int. 204 (2018); Bowman Heiden & Nicolas Petit, *Patent ‘Trespass’ and the Royalty Gap: Exploring the Nature and Impact of Patent Holdout*, 34 Santa Clara High Tech. L.J. 179 (2018); Peter G. Picht, *The ECJ Rules on Standard-Essential Patents: Thoughts and Issues Post-Huawei*, 37 ECLR 365 (2016).

<sup>7</sup> An overview over SSOs that require FRAND declarations (in different variations) can be found in Peter G. Picht, *Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts* 189–217 (2014); Rudi Bekkers & Andrew Updegrave, *A Study of IPR Policies and Practices of a Representative Group of Standards Setting Organizations Worldwide*, <https://ssrn.com/abstract=2333445>; important examples are ETSI and ANSI. The legal nature of FRAND declarations depends on the law applicable to them. Different theories are being discussed regarding their dogmatic classification: *invitatio ad offerendum*, *offerta ad incertas personas*, third-party beneficial contract, *pactum de non petendo*, waiver in rem of the exclusive right, see Mary-Rose McGuire, *Die FRAND-Erklärung, Anwendbares Recht, Rechtsnatur und Bindungswirkung am Beispiel eines ETSI-Standards*, GRUR 128, 131–32 (2018), who considers the FRAND declarations for ETSI standards in application of French law as a contract in favour of third parties.

<sup>8</sup> On the importance of standardization, see Peter G. Picht, *Standardsetzung und Patentmissbrauch – Schlagkraft und Entwicklungsbedarf des europäischen Kartellrechts*, GRUR Int. 1, 2 (2014); Haris Tsilikas, *Collaborative Standardization and Disruptive Innovation: The Case of Wireless Telecommunication Standards*, Max Planck Institute for Innovation & Competition Research Paper No. 16–06, 1, 13–21.

<sup>9</sup> Especially in the ICT sector, interconnectivity between different devices would not even be possible without SEPs. Without interoperability, 40% of the potential advantages of the Internet of Things would not be realized, see EU Commission, *supra* n. 4, at 1.

<sup>10</sup> Claudia Tapia & Spyros Makris, *Negotiating SEP Licenses in Europe after Huawei v. ZTE: Guidance from National Courts*, managingip.com May 2018, 29, [www.4ipcouncil.com/application/files/1315/3018/6300/21-29\\_article\\_SEPs.pdf](http://www.4ipcouncil.com/application/files/1315/3018/6300/21-29_article_SEPs.pdf); Haris Tsilikas, *Huawei v. ZTE in Context – EU Competition Policy and Collaborative Standardization in Wireless Telecommunications*, 48 IIC 151, 175 (2017).

<sup>11</sup> Not all policies are working with the classical FRAND mechanism, see the overview in Bekkers & Updegrave, *supra* n. 7, at 89, table 13; a detailed description can be found in Picht, *supra* n. 7, at 189–

potential conflict: Is the patent for which a FRAND declaration has been issued truly a valid and standard-essential patent at all? Has a patent owner failed to declare certain SEPs or neglected a FRAND declaration? Can any market participant ask for a license based on a FRAND declaration or do additional criteria need to be met? Last but not least: which conditions are FRAND in a specific case? It comes as no surprise, therefore, that FRAND licensing generates a substantial number of legal disputes.<sup>12</sup>

With the digital transformation of large parts of our economies, the importance of the (FRAND) licensing of SEPs on ICT standards is likely to further increase significantly. New market sectors are going to be incorporated into a digital environment which is based, to an important extent, on ICT standards such as the 5G telecommunication standard.<sup>13</sup> It is no longer just smartphone producers, telecommunication service providers or online shop operators that have to deal with the licensing of ICT SEPs, but also the agricultural industry, waterworks operators, and car makers. For example, 'smart farming' uses ICT in agriculture (GPS-enabled tractors, sensors communicating soil fertility data via mobile communication networks, etc.),<sup>14</sup> and hence licenses on such ICT infrastructure become essential. Self-driving, connected vehicles are a key component of mobility's digital future and have already led to litigation between communications companies and car manufacturers.<sup>15</sup> Thus, a great number of new players enter the game, and their previous know-how, corporate cultures, and interests are, at times, quite different from those of established ICT players familiar with the realities of the sector. This may cause positive effects, but it can also be a source of friction. Hence, digital transformation does increase the importance of appropriate conflict resolution mechanisms for SEP/FRAND licensing.

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217; it is also not settled what should apply if the SEP owner has not issued a FRAND declaration at all, see Picht, *supra* n. 6, at 371.

<sup>12</sup> SEPs tend to be more often in dispute than ordinary patents, see EU Commission, Patents and Standards, A Modern Framework for IPR-based Standardization, Final Report, Ref. Ares(2014) 917720 125–26 (25 Mar. 2014).

<sup>13</sup> Munich IP Dispute Resolution Forum (IPDR), FRAND ADR Case Management Guidelines, 7, [www.ipdr-forum.org/guidelines](http://www.ipdr-forum.org/guidelines) [hereinafter 'FRAND Guidelines'].

<sup>14</sup> See in more detail [www.economist.com/technology-quarterly/2016-06-09/factory-fresh](http://www.economist.com/technology-quarterly/2016-06-09/factory-fresh).

<sup>15</sup> As an example, the German carmaker Daimler complained to the EU Commission about Nokia's patents being essential to car communication, asking for 'clarification on how essential patents for telecommunications standards are to be licensed in the automotive industry' ([www.reuters.com/article/us-eu-daimler-nokia-patents/daimler-asks-eu-antitrust-regulators-to-probe-nokia-patents-idUSKCN1RA2KF](http://www.reuters.com/article/us-eu-daimler-nokia-patents/daimler-asks-eu-antitrust-regulators-to-probe-nokia-patents-idUSKCN1RA2KF)). Nokia, in turn, started a patent lawsuit at the regional courts of Düsseldorf, Mannheim and Munich ([www.juve-patent.com/news-and-stories/cases/daimler-faces-next-connected-cars-dispute](http://www.juve-patent.com/news-and-stories/cases/daimler-faces-next-connected-cars-dispute)).

## 2.2 STRENGTHS OF ARBITRATION PROCEEDINGS COMPARED TO STATE COURT PROCEEDINGS

ADR in general, and specifically in SEP/FRAND cases, is not categorically ‘better’ than state court dispute resolution. It displays certain strengths, however, which can make it the preferable choice in appropriate settings. Among these advantages<sup>16</sup> is the parties’ ability to choose arbitrators or mediators with the necessary expertise for SEP/FRAND disputes, which are often complex, not only in a legal but also in a technical and economic sense.

Secondly, ADR promises a higher degree of confidentiality, even considering certain restrictions in the interest of other market participants and the general public (see section 8 below). Confidentiality can be of particular relevance for SEP/FRAND disputes, as the economic stakes are often high and the proceedings allow for a deep insight into the licensing practices and business models of the parties involved.<sup>17</sup>

Thirdly, the ‘portfolio component’ of typical SEP/FRAND settings looms large: because SEP portfolios consist of numerous patent ‘families,’<sup>18</sup> with siblings originating from various jurisdictions, they can be cause (and ammunition) for legal disputes before multiple national courts which base their jurisdiction on the respective domestic SEPs in the portfolio.<sup>19</sup> This generates risks of forum shopping, of waste of resources due to parallel proceedings,<sup>20</sup> and of conflicting decisions. ADR proceedings, on the other hand, can be shaped more easily to cover entire SEP portfolios. For instance, arbitration tribunals are not hindered by some sort of territoriality principle to hear cases relating to patents from various jurisdictions, and it can be hugely time and cost effective to have all (technologically identical) members of a patent family assessed by one such tribunal instead of

<sup>16</sup> Frequently mentioned advantages of international arbitration in general include the possibility to choose a neutral forum; confidentiality; potentially rather cheap and fast proceedings; far-reaching party autonomy and flexibility (e.g. choice of arbitrators with special expertise in the dispute, language of proceedings); limited means to appeal the decision; relatively simple enforceability on the basis of the New York Convention, see Gary Born, *International Arbitration: Law and Practice*, Ch. 1, paras 16–24 (2nd ed., 2015).

<sup>17</sup> Cf. *TCL Commun. Tech. Holdings v. Telefonaktiebolaget LM Ericsson*, Case No. 8:14-cv-00341-JVS-DFM (C.D. Cal. 2017), Memorandum of Findings of Fact and Conclusions of Law, with detailed statements on the strength of Ericsson’s patent portfolio and on (from the court’s point of view) appropriate licensing conditions for this portfolio.

<sup>18</sup> A patent family is a group of patents granted by different jurisdictions but concerning the same technical invention, see Jean O. Lanjouw & Mark Schankerman, *Patent Quality and Research Productivity: Measuring Innovation with Multiple Indicators*, 114 *The Econ. J.* 441, 447 (2004).

<sup>19</sup> Cf., e.g. *Huawei Technologies Co. v. Conversant Wireless Licensing* [2019] EWCA Civ 38.

<sup>20</sup> Beyond all general rules of jurisdiction in international private and private procedural law, one may argue about the procedural economics of a situation in which a large number of national courts decide on the respective domestic member of a patent family, leading to several, and potentially diverging decisions on the same invention.

several state courts. As to interim or conservatory measures, cross-border emergency arbitrator proceedings can be much more efficient than a plethora of state court proceedings for interim or conservatory measures in multiple jurisdictions. Besides reducing the aforementioned risks, ADR can thereby offer to the patentee a relatively effective IP rights enforcement, even with regard to jurisdictions where state patent jurisdiction is suboptimal. For implementers with limited resources, such as small and medium-sized enterprises (SMEs), a single arbitration proceeding can be much more manageable than multi-pronged state court litigation in different jurisdictions, especially if streamlined with a view to saving time and resources.

Assessing voluminous and diverse patent portfolios is a big challenge not only for state courts but also for arbitral tribunals. However, due to the greater flexibility in their scope, in the design of their proceedings, and in their decision criteria, arbitral tribunals are, to a certain extent, in a better position to handle this challenge than a state court patent jurisdiction which is mainly designed for scrutinizing individual patents.<sup>21</sup> For instance, parties to an arbitral proceeding could agree on a (tiered) ‘sampling’ in which the FRAND licensing conditions would be determined by a full examination for a limited selection of the portfolio SEPs, another part of the portfolio would be subject to a limited examination, and the results would then be applied to the remaining SEPs.

### 2.3 HIGH ACCEPTANCE BY STATE AUTHORITIES

Many administrative<sup>22</sup> and judicial bodies hold a decidedly positive view on resolving SEP/FRAND conflicts through ADR: the Court of Justice of the European Union’s (CJEU’s) seminal *Huawei/ZTE* decision provides for the determination of FRAND licensing conditions through an independent third party in case the parties fail to agree on such conditions.<sup>23</sup> Given the broad wording, which does not expressly refer to courts, the leading view takes this passage to include arbitration mechanisms.<sup>24</sup>

German courts favour an approach according to which a patent holder can fulfil its FRAND licensing obligation by submitting a license offer, albeit not a completely FRAND-compliant one, while, at the same time, subjecting itself to

<sup>21</sup> A standard answer from the judiciary to the question of how courts can deal with a large patent portfolio is: ‘one after the other’.

<sup>22</sup> On recent activities of the Japanese Patent Office regarding SEP/FRAND arbitration, see Kozo Yabe, *Arbitration – Is This Good Solution for SEP Disputes?*, <https://aippi.org/no-show/arbitration-is-this-good-solution-for-sep-disputes>.

<sup>23</sup> Case C-170/13 *Huawei Technologies v. ZTE*, para. 68 (16 July 2015).

<sup>24</sup> Including Antje Baumann, *Einschaltung von Schiedsgerichten zur Bestimmung der FRAND-Konditionen*, GRUR 145, 147 (2018); Chrocziel, Kasolowsky, Whitener & Prinz zu Waldeck und Pyrmont, *supra* n. 2, Ch. 8, para. 32; Kaneko, *supra* n. 2, at 31, n. 53.



third party-determination under section 315 of the German Civil Code in case of dispute over the license conditions.<sup>25</sup> This determination does not have to be exercised by state courts, it can also be achieved through ADR.

In the SEP Communication it issued in November 2017,<sup>26</sup> the EU Commission has even gone one step further:

The Commission takes the view that alternative dispute resolution (ADR) mechanisms such as mediation and arbitration can offer swifter and less costly dispute resolution ... [T]he Commission is, together with the EUIPO [European Union Intellectual Property Office], mapping IP mediation and arbitration tools with the view to facilitating the further roll-out of IP mediation and arbitration services<sup>27</sup>

It squares well with this stance that the Commission has already ordered the potential use of arbitration mechanisms in SEP/FRAND proceedings,<sup>28</sup> as has the US Federal Trade Commission.<sup>29</sup> A recent report on the Commission's SEP Communication to the European Parliament confirms the pro-ADR approach at the European level.<sup>30</sup>

### 3 INSTITUTIONAL FRAMEWORK – SOFT LAW

Ad hoc arbitral tribunals, operating independently of any established arbitration organization, are not usually in the best position to handle SEP/FRAND disputes.<sup>31</sup>

<sup>25</sup> Regional Court of Düsseldorf (LG Düsseldorf), 31 Mar. 2016, 4a O 73/14, para. 406 et seq (openJur.de), abuse in the case of an obviously excessive claim for fees (paras 412–13) and no sufficiently specific licensing offer by referring to third party determination for fee determination, without quantifying it (para. 415); Regional Court of Mannheim (LG Mannheim), 27 Nov. 2015, 2 O 106/14, para. 277 (openJur.de); see also Peter G. Picht, 'FRAND wars 2.0' – *Rechtsprechung im Anschluss an die Huawei/ZTE-Entscheidung des EuGH (Teil 2)*, WuW 300, 303 (2018).

<sup>26</sup> EU Commission, *supra* n. 4, at 11.

<sup>27</sup> See also EU Commission, Antitrust Decisions on Standard Essential Patents (SEPs) – Motorola Mobility and Samsung Electronics – Frequently Asked Questions, Memo of 29 Apr. 2014, [http://europa.eu/rapid/press-release\\_MEMO-14-322\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-322_en.htm): 'The Motorola decision provides a "safe harbour" for standard implementers who are willing to take a licence on FRAND terms. If they want to be safe from injunctions based on SEPs by the patent holder, they can demonstrate that they are a willing licensee by agreeing that a court or a mutually agreed arbitrator adjudicates the FRAND terms.'

<sup>28</sup> See e.g. Case At.39939 *Samsung Electronics*, Commission Decision of 29 Apr. 2014, [http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=1\\_39939](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=1_39939).

<sup>29</sup> Federal Trade Commission, *The Significance of Consent Orders in the Federal Trade Commission's Competition Enforcement Efforts* 10–11 (17 Sept. 2013), [https://www.ftc.gov/sites/default/files/documents/public\\_statements/significance-consent-orders-federal-trade-commission%E2%80%99s-competition-enforcement-efforts-gcr-live/130917gcrspeech.pdf](https://www.ftc.gov/sites/default/files/documents/public_statements/significance-consent-orders-federal-trade-commission%E2%80%99s-competition-enforcement-efforts-gcr-live/130917gcrspeech.pdf); Docket No. C-4410 in the Matter of *Motorola Mobility and Google*, Federal Trade Commission Decision and Order, 9 et seq, [www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf](http://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf).

<sup>30</sup> Policy Department for Citizens' Rights and Constitutional Affairs, *Standard Essential Patents and the Internet of Things* 7, 12, 25 (Jan. 2019), [www.europarl.europa.eu/RegData/etudes/IDAN/2019/608854/IPOL\\_IDA\(2019\)608854\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2019/608854/IPOL_IDA(2019)608854_EN.pdf).

<sup>31</sup> FRAND Guidelines, *supra* n. 13, paras 23, 51.



This is due, inter alia, to the complexity of such disputes and the challenging selection of apt arbitrators and applies, in particular, to parties without extensive previous experience in conducting SEP/FRAND ADR. As to suitable institutional players, there are several options<sup>32</sup>: the International Court of Arbitration of the International Chamber of Commerce (ICC) has already conducted large SEP/FRAND proceedings<sup>33</sup> but not yet established specific rules or guidelines for such cases. The World Intellectual Property Organization (WIPO) offers some special guidance for SEP/FRAND ADR.<sup>34</sup> According to informed market participants, WIPO's respective model submission agreements are now regularly used, which might lead to a substantial increase in WIPO-organized proceedings in the future. The future role of the Patent Mediation and Arbitration Centre (PMAC), foreseen by the Agreement on a Unified Patent Court (UPCA),<sup>35</sup> depends, in the first place, on whether the Unitary Patent system will see the light of day at all.<sup>36</sup> If so, the scope of jurisdiction of the PMAC will be a core issue. According to a restrictive view, the PMAC can (summarily speaking) decide only on core patent law matters (e.g. infringement) regarding unitary patents or European Patents (cf. Article 3 UPCA), but not, for instance, on contractual claims resulting from a licensing relationship (cf. Article 32(1)(h) UPCA though) or on SEPs covering the identical technology as a

<sup>32</sup> To name but a few: International Chamber of Commerce (ICC), Deutsche Institution für Schiedsgerichtsbarkeit (DIS), World Intellectual Property Organization (WIPO), Hong Kong International Arbitration Centre (HKIAC), Singapore International Arbitration Centre (SIAC), and American Arbitration Association International Center for Dispute Resolution (AAA-ICDR).

<sup>33</sup> See e.g. the proceedings between InterDigital and Huawei (InterDigital Quarterly Report Pursuant to s. 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended 10–11 (30 Sept. 2016), [www.sec.gov/Archives/edgar/data/1405495/000140549516000076/idcc-q39302016.htm](http://www.sec.gov/Archives/edgar/data/1405495/000140549516000076/idcc-q39302016.htm)); between Nokia and LG Electronics ([www.nokia.com/en\\_int/news/releases/2017/09/18/nokia-receives-decision-in-patent-license-arbitration-with-lg-electronics](http://www.nokia.com/en_int/news/releases/2017/09/18/nokia-receives-decision-in-patent-license-arbitration-with-lg-electronics)); between Nokia and BlackBerry ([www.reuters.com/article/us-blackberry-nokia-patents/blackberry-loses-payment-dispute-with-nokia-to-pay-137-million-idUSKBN1DV517](http://www.reuters.com/article/us-blackberry-nokia-patents/blackberry-loses-payment-dispute-with-nokia-to-pay-137-million-idUSKBN1DV517)).

<sup>34</sup> See in particular WIPO, *Guidance on WIPO FRAND Alternative Dispute Resolution (ADR)* (2017), [www.wipo.int/export/sites/www/amc/en/docs/wipofrandadrguidance.pdf](http://www.wipo.int/export/sites/www/amc/en/docs/wipofrandadrguidance.pdf) (which is based on the Munich IPDR Forum FRAND Guidelines); see further the Model Submission Agreements for different WIPO ADR options, [www.wipo.int/amc/en/center/specific-sectors/ict/frand](http://www.wipo.int/amc/en/center/specific-sectors/ict/frand).

<sup>35</sup> Cf. in particular Art. 35 UPCA.

<sup>36</sup> In Germany, the ratification of the UPCA has been delayed due to a constitutional complaint by lawyer Stjerna ([www.stjerna.de/vb](http://www.stjerna.de/vb)). Being one of the three mandatory signatories (the other two being France and the United Kingdom), Germany's ratification is needed for entry into force. A decision by the Federal Constitutional Court is expected for 2019 ([www.bundesverfassungsgericht.de/EN/Verfahren/Jahresvorausschau/vs\\_2019/vorausschau\\_2019\\_node.html](http://www.bundesverfassungsgericht.de/EN/Verfahren/Jahresvorausschau/vs_2019/vorausschau_2019_node.html), Case no. 2 BvR 739/17). However, even if Germany ratifies, the entry into force is unclear due to Brexit. The United Kingdom ratified the UPCA in Apr. 2018 ([www.gov.uk/government/news/uk-ratifies-the-unified-patent-court-agreement](http://www.gov.uk/government/news/uk-ratifies-the-unified-patent-court-agreement)) and wants to stay in the UPC system after Brexit (HM Government, *The Future Relationship Between the United Kingdom and the European Union*, July 2018, Ch. 1, para. 151, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/786626/The\\_Future\\_Relationship\\_between\\_the\\_United\\_Kingdom\\_and\\_the\\_European\\_Union\\_120319.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786626/The_Future_Relationship_between_the_United_Kingdom_and_the_European_Union_120319.pdf)). For more information see <http://patentblog.kluweriplaw.com/2019/01/18/the-unified-patent-court-all-dressed-up-but-no-place-to-go>.

unitary patent or European Patent but granted by another jurisdiction.<sup>37</sup> If this view were to prevail, PMAC's ability to attract larger SEP/FRAND disputes appears questionable.

Not only framework rules of institutions, such as the ICC or WIPO, but also other components of soft law<sup>38</sup> play an important role in ADR. Even where parties do not choose to make them binding, they can influence the arbitral tribunal as best practice.<sup>39</sup> This is true for ADR in the SEP/FRAND area as well. In fact, the area experiences considerable model rule creation activity by non-state<sup>40</sup> actors. An International Association for the Protection of Intellectual Property (AIPPI) working group is dealing with the topic<sup>41</sup> and the Munich IP Dispute Resolution Forum (Munich IPDR), a non-profit association for the promotion of IP procedures through dialogue and research,<sup>42</sup> has just issued its 'FRAND ADR Case Management Guidelines'.<sup>43</sup> Based on in-depth consultations with relevant market players, these guidelines highlight the most important aspects of SEP/FRAND ADR and aim at providing guidance to parties and arbitrators on how to handle complex SEP/FRAND proceedings (see references in this article for details).<sup>44</sup>

#### 4 SCOPE OF ARBITRATION

Among the typical subject matters of IP arbitration, all kinds of license disputes figure prominently, such as disputes on claims to the granting of a license, on the conditions and execution of the license agreement, or on post-contractual obligations.<sup>45</sup> Core IP matters, such as (initial) ownership or validity, keep tribunals busy as well.<sup>46</sup> In principle, the same issues also constitute the main field of

<sup>37</sup> In depth and with a moderately expanding tendency of the PMAC's scope, see Picht, *supra* n. 2, at 9–11; see also Kaneko, *supra* n. 2, at 89, 97, n. 441.

<sup>38</sup> Cf. e.g. IBA Rules on the Taking of Evidence in International Arbitration (2019) and IBA Guidelines for Drafting International Arbitration Clauses (2010), [www.ibanet.org/Publications/publications\\_IBA\\_guides\\_and\\_free\\_materials.aspx](http://www.ibanet.org/Publications/publications_IBA_guides_and_free_materials.aspx); CIARB Guideline 5 Security for Costs, 2016, [www.ciarb.org/resources/guidelines-ethics/international-arbitration](http://www.ciarb.org/resources/guidelines-ethics/international-arbitration).

<sup>39</sup> See for more information FRAND Guidelines, *supra* n. 13, Annex II.

<sup>40</sup> State-generated soft law on SEP/FRAND is contained, to some extent, in official opinions such as the SEP Communication of the EU Commission (*supra* n. 4) or the Guide to Licensing Negotiations Involving Standard Essential Patents of the Japan Patent Office ([www.jpo.go.jp/e/system/laws/rule/guideline/patent/document/seps-tebiki/guide-seps-en.pdf](http://www.jpo.go.jp/e/system/laws/rule/guideline/patent/document/seps-tebiki/guide-seps-en.pdf)).

<sup>41</sup> AIPPI Standing Committee on Standards and Patents, <http://aippi.org/committee/standards-and-patents>.

<sup>42</sup> See [www.ipdr-forum.org](http://www.ipdr-forum.org); the author Peter Georg Picht is a board member of the Munich IP Dispute Resolution Forum, but the article only expresses his own position, not necessarily that of the Forum.

<sup>43</sup> FRAND Guidelines, *supra* n. 13.

<sup>44</sup> *Ibid.*, para. 11.

<sup>45</sup> Cf. e.g. Higher Regional Court of Cologne (OLG Köln), 19 Sch. 8/11 (6 July 2012); *BlackBerry v. Qualcomm* ([www.marketwatch.com/story/blackberry-awarded-final-940-million-in-arbitration-with-qualcomm-over-royalties-2017-05-26](http://www.marketwatch.com/story/blackberry-awarded-final-940-million-in-arbitration-with-qualcomm-over-royalties-2017-05-26)).

<sup>46</sup> Cf. e.g. ICC Case No. 6097, Interim Award of 1989, 4 ICC Bull. 76 (1993); cf. also Federal Patent Court (BPtG), 12 June 2012, 33 W (pat) 58/10.

activity for arbitral tribunals in SEP/FRAND proceedings. There are, however, technical, legal, and economic particularities.

Typically, the details of FRAND licensing conditions for the respective SEP portfolio is of central importance.<sup>47</sup> This can include not only the amount and calculation method of the license fee, but also the license term, material, and territorial use restrictions, or cross-licensing issues. However, the task of the arbitral tribunal can exceed the mere determination of a 'price tag' for a given SEP portfolio.<sup>48</sup>

One additional, characteristic question is: which of the declared SEPs in the portfolio actually are standard-essential and being used by the implementer, so that a license is necessary? Of course, SEP owners will usually not license their portfolios on a patent-specific basis, by enumerating all covered patents, but rather by way of a comprehensive license to all patents that are or might become essential. This is because only such a broad license guarantees legal certainty for the standard-based market activity of the implementer. For the purpose of determining license conditions, however, and especially for the calculation of royalties, the number of patents to be licensed from the portfolio remains of relevance. This is all the more so because many SSOs do not check whether the declared SEPs really are valid and essential in the sense that a use of the standard necessarily requires use of the patent.<sup>49</sup> The intuitive assumption is that the absence of neutral checks tends to create divergence between declared and actual SEPs, as well as disputes on the extent of this divergence.<sup>50</sup> It would be misleading, however, trying to attribute this to strategic over-declaration on the part of the patentee alone. Other factors, such as diverging interpretations of the patent claims or extremely broad declaration obligations under the SSO rules,<sup>51</sup> can also play a role. Furthermore, a

<sup>47</sup> Cf. *supra* n. 33.

<sup>48</sup> FRAND Guidelines, *supra* n. 13, para. 41.

<sup>49</sup> This includes ETSI, the SSO developing the important mobile communications standards of the 'G' family.

<sup>50</sup> Cf. on patent invalidity in general Joachim Henkel & Hans Zischka, *Why Most Patents Are Invalid – Extent, Reasons, and Potential Remedies of Patent Invalidity*, [www.law.berkeley.edu/files/Henkel\\_Joachim\\_IPSC\\_paper\\_2014\\_20140813.pdf](http://www.law.berkeley.edu/files/Henkel_Joachim_IPSC_paper_2014_20140813.pdf); Thomas Kühnen & Rolf Claessen, *Die Durchsetzung von Patenten in der EU – Standortbestimmung vor Einführung des europäischen Patentgerichts*, GRUR 592, 594 (2013); Peter Hess, Tilman Müller-Stoy & Martin Wintermeier, *Sind Patente nur 'Papiertiger'?*, MittPatA 439 (2014).

<sup>51</sup> Cf. e.g. ETSI Intellectual Property Rights Policy ([www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf](http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf)), para. 4.1: 'each MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER's IPR which might be ESSENTIAL if that proposal is adopted.'

complex ICT standard typically contains elements of differing function and significance. While the core of the standard needs to be used by all implementers, other components are of relevance for specific user groups only and some components could not successfully establish themselves in the market and are not widely used at all ('dead language'). It may, therefore, very well be the case that an implementer uses the patents on the core of the standard and patents on components that are relevant for its business model, but not the patents on other components of the standard.<sup>52</sup> For this reason alone, not all patents declared as essential must be essential to – in the sense of necessarily used by – this particular implementer.

Another issue beyond the determination of a portfolio 'price tag' is the parties' negotiation and, more generally, pre-ADR conduct. In its *Huawei/ZTE* decision, the CJEU has chosen a rather procedural approach, avoiding almost all statements about the FRAND content of a licensing package and focusing, instead, on conduct obligations in the process of FRAND licensing negotiations.<sup>53</sup> The numerous cases in which parties are seeking the determination of FRAND licensing conditions before state courts<sup>54</sup> raise some doubts on whether the CJEU's reliance on a fair negotiation process will be able to eradicate FRAND licensing disputes in the future. In any case, it has made FRAND party conduct a point on which the grant of an injunction or, conversely, the claim to a FRAND license can turn and, hence, an aspect of key importance to state court and ADR proceedings alike.

## 5 ARBITRABILITY

As to SEP/FRAND licensing conditions, any doubts regarding their arbitrability<sup>55</sup> are, for practical purposes at least, dispelled by the clear, affirmative position of the courts<sup>56</sup> and the EU Commission.<sup>57</sup>

The arbitrability of 'core IP matters' (mainly validity and first ownership) is more problematic and depends on the respective jurisdiction.<sup>58</sup> Many jurisdictions deny arbitrability of such core matters to the extent a resulting award would have

<sup>52</sup> In detail Peter G. Picht, 'FRAND wars 2.0' – *Rechtsprechung im Anschluss an die Huawei/ZTE-Entscheidung des EuGH (Teil 1)*, WuW 234, 238 (2018), with further references.

<sup>53</sup> Case C-170/13 *Huawei Technologies v. ZTE*, paras 61–71 (16 July 2015).

<sup>54</sup> For an overview see Picht, *supra* n. 52; Picht, *supra* n. 25.

<sup>55</sup> See in detail Peter G. Picht, *Schiedsverfahren in SEP/FRAND-Streitigkeiten – Überblick und Kernprobleme*, GRUR 11, 17–18 (2019).

<sup>56</sup> Case C-170/13 *Huawei Technologies v. ZTE*, para. 68 (16 July 2015); Baumann, *supra* n. 24, at 147.

<sup>57</sup> EU Commission, *supra* n. 4, at 11.

<sup>58</sup> See the overview in Chrocziel, Kasolowsky, Whitener & Prinz zu Waldeck und Pyrmont, *supra* n. 2, Ch. 3, table 1, paras 7–15; Trevor Cook & Alejandro I. Garcia, *International Intellectual Property Arbitration* 50–52 (2nd ed., 2010); Dário Moura Vicente, *Arbitrability of Intellectual Property Disputes*:

*erga omnes* effect, i.e. also affecting persons who were not parties to the proceedings.<sup>59</sup> However, even these jurisdictions frequently permit *inter partes* awards on core IP matters, binding only the parties to the proceedings, or even awards with ‘indirect’ *erga omnes* effect, obliging a party to undertake steps (e.g. waiving an IP right) which, themselves, generate an *erga omnes* effect.<sup>60</sup>

In any case, *erga omnes* effects are not necessarily the first choice of parties to an arbitral proceeding, and this tendency might be particularly marked for SEP/FRAND arbitration proceedings: If a tribunal holds a patent to be invalid or not infringed with bilateral effect only, the patent owner is, in principle, no longer entitled to royalties from the other party to the proceeding. The outcome does not, however, automatically have an effect vis-à-vis competitors of the implementer and potential other licensees of the patent owner. Consequently, vis-à-vis such other market participants, the patent continues to offer a chance for its owner to collect royalties, and for the implementer it provides at least a certain shielding effect against competition from non-licensing market participants.

## 6 CHOICE OF LAW

Whatever the bilateral or multi-sided effects of an arbitral award, the latter needs to be based on certain rules. This raises the question of the parties’ possibility to choose these rules. A distinction must be drawn here between the law applicable to the conduct of the arbitration proceedings, the law governing the substance of the case, and the law applicable to the arbitration clause in its capacity as a contractual agreement.<sup>61</sup> Taking German law as an example, the law on procedure consists, firstly, of mandatory rules of national arbitration law at the place of arbitration (*lex loci arbitri*); secondly, of rules agreed upon by the parties (German Code of Civil Procedure, section 1042(3)), such as the arbitration rules of an institution designated by them; thirdly, of non-mandatory rules of the *lex loci arbitri*.<sup>62</sup> If these rules

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*A Comparative Survey*, 31 Arb. Int’l 151 (2015), from a Belgian, Canadian (Québec), French, Portuguese, South African, and US perspective.

<sup>59</sup> General non-arbitrability of patent invalidity in South Africa (Vicente, *supra* n. 58, at 153; Chrocziel, Kasolowsky, Whitener & Prinz zu Waldeck und Pyrmont, *supra* n. 2, Ch. 3, table 1, at 23) and China (*Ibid.* Ch. 3, table 1, at 20 and n. 80); arbitrability only *inter partes* in England (*Ibid.*, Ch. 3, table 1, at 20–21 and n. 84) and presumably in France (Vicente, *supra* n. 58, at 154–55; Edouard Fortunet, *Arbitrability of Intellectual Property Disputes in France*, 26 Arb. Int’l 281, 290–93 (2010)).

<sup>60</sup> Cf. Chrocziel, Kasolowsky, Whitener & Prinz zu Waldeck und Pyrmont, *supra* n. 2, Ch. 3, paras 7–14.

<sup>61</sup> Nils Schmidt-Ahrendts & Philipp Höttler, *Anwendbares Recht bei Schiedsverfahren mit Sitz in Deutschland*, SchiedsVZ 267, 268 (2011).

<sup>62</sup> Schmidt-Ahrendts & Höttler, *supra* n. 61, at 268; in Germany, the pertinent provision is Code of Civil Procedure, s. 1042(1) and (2).

do not provide an answer, the arbitral tribunal decides at its discretion (Code of Civil Procedure, section 1042(4)(1)).<sup>63</sup>

German law expressly provides for an option to choose the law applicable to the substance of the dispute in section 1051(1)(1) of the Code of Civil Procedure.<sup>64</sup> For disputes involving SEP/FRAND portfolios, such a choice of law is very attractive since it allows the placing of many facets of the dispute under the same legal regime, reducing not only the resources required for covering multiple national laws but also the risk of contradictions between these laws. Disputes springing from an existing license agreement can oftentimes be resolved, to a large extent, under the law applicable to the license contract, as determined by choice of law or objective rules on conflicts of laws. However, in what is probably the most important constellation of SEP/FRAND disputes at present, parties fight over whether and under which conditions the implementer needs to take and the patentee needs to grant a license based on the FRAND declaration. According to the leading view (at least) on European Telecommunications Standards Institute (ETSI) FRAND declarations, these statements do not, in themselves, constitute a licensing agreement between the patent owner and the individual implementer but merely oblige the patentee to enter, under certain conditions, into such agreements.<sup>65</sup> Hence, and unless one wants to deduce from the respective SSO policy a choice of law with effect for future FRAND declaration-based licensing agreements, this prototypical constellation of SEP/FRAND disputes lacks a law applicable to a pre-existing contract, which could provide a legal framework for the dispute as well. This makes a choice of law under ADR rules all the more attractive.

Parties' choice of law options have their limitations, though, especially in the principle of territoriality of intellectual property rights. It states that core IP matters are mandatorily subject to the law of the jurisdiction which has granted the respective IP right (the so-called *lex loci protectionis*).<sup>66</sup> Regardless of whether, and to which extent, Articles 8 and 13 of the Rome II Regulation<sup>67</sup> have, nowadays, made the application of the *lex loci protectionis* a mandatory part of statutory EU law, it follows from the principle of territoriality that parties cannot derogate application of this law to core IP matters, arguably not even within ADR.<sup>68</sup>

<sup>63</sup> Schmidt-Ahrendts & Hötter, *supra* n. 61, at 268.

<sup>64</sup> *Ibid.*, at 268–69.

<sup>65</sup> McGuire, *supra* n. 7, at 128–29 with further references, 131, 133, mentioning that the legal system to which the FRAND declaration is subject to does not prevent the parties from a choice of law for the license agreement based on it.

<sup>66</sup> For the *lex loci protectionis* principle, see Joseph Drexler, *Münchener Kommentar zum Bürgerlichen Gesetzbuch*, Band 12, part 8, para. 10 (7th ed. 2018).

<sup>67</sup> Regulation (EC) 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations ('Rome II').

<sup>68</sup> Cf. on this, and on the controversy regarding the scope of Rome II Regulation, Arts 8 and 13, Mary-Rose McGuire, *beck-online.GROSSKOMMENTAR*, Art. 8 Rom II-VO, para. 54 (ed. of 1 Dec.

## 7 ARBITRATION CLAUSE

### 7.1 EXISTENCE

Without a pre-existing arbitration agreement, opponents will usually find it much more difficult to consent to an ADR mechanism for their conflict. In the SEP/FRAND context, pre-existing arbitration agreements are often lacking as the dispute is not about an existing licensing relationship, but rather about its establishment. On the other hand, SEP/FRAND disputes frequently involve experienced market players who see the advantages of ADR and succeed in reaching an arbitration agreement even after the legal conflict has already arisen. While specific state law is (as yet) not available,<sup>69</sup> the SSOs' IPR policies and the FRAND declarations of SEP holders could potentially establish *ex ante* arbitration clauses binding patentees and implementers. However, neither the IPR policy of ETSI nor the policies of other SSOs contain language to this effect. In particular, typical SSO rules do not oblige SEP owners to integrate an arbitration clause into their FRAND declarations.<sup>70</sup> Courts and agencies are likely to boost readiness to enter into ad hoc arbitration agreements when they consider such readiness an indicator for a party's compliance with the procedural prong of FRAND.<sup>71</sup> Some first steps

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2016); Andreas Spickhoff, *BeckOK BGB*, Art. 8 Rom II-VO, para. 3 (48th ed., of 1 Nov. 2017); Hannes Unberath, Johannes Cziupka & Steffen Pabst, *EuZPR-EuIPR, Kommentar Europäisches Zivilprozess- und Kollisionsrecht*, Art. 8 Rom II-VO, para. 8 (4th ed., 2016); Peter G. Picht, *Vom materiellen Wert des Immateriellen – Immaterialgüterrechte als Kreditsicherungsmittel im nationalen und internationalen Rechtsverkehr* 546–48, 558–59 (2018). On the (lack of a) binding effect of the EU Regulation for arbitral tribunals, see in detail Alexander Grimm, *Applicability of the Rome I and II Regulations to International Arbitration*, *SchiedsVZ* 189 (2012); Schmidt-Ahrendts & Höttler, *supra* n. 61, at 269–70, the prevailing opinion in arbitration literature rejects the binding effect of the Rome Regulations for arbitral tribunals. On intermediary views that want to give s. 1051 of the Code of Civil Procedure precedence, while still respecting limitations on choice of law (*Rechtswahlverbot*), Mary-Rose McGuire, *Grenzen der Rechtswahlfreiheit im Schiedsverfahrensrecht? Über das Verhältnis zwischen der Rom-I-VO und § 1051 ZPO*, *SchiedsVZ* 257, 260–61 (2011).

<sup>69</sup> On possible FRAND regulation see Reto M. Hilty & Peter R. Slowinski, *Standardessentielle Patente – Perspektiven außerhalb des Kartellrechts*, *GRUR Int.* 781 (2015).

<sup>70</sup> Some SSOs have ADR clauses, however, e.g. Art. 14.7 of the Memorandum of Understanding of the Digital Video Broadcasting (DVB) project (version 3 Jan. 2014) which provides for arbitration on the basis of ICC Rules, whereby the arbitral tribunal consists of three members, takes place in Frankfurt, and German law applies ([www.dvb.org/members/rulesandprocedures](http://www.dvb.org/members/rulesandprocedures)); Art. 16(5) of the Blu-Ray Disc Association Bylaws (version 2.0 rev., updated as of 1 Oct. 2010) provides for arbitration under the AAA Rules in New York consisting of one arbitrator ([http://blu-raydisc.com/Assets/Downloadablefile/BDA\\_Bylaws\\_%28v2.0%29-18618.pdf](http://blu-raydisc.com/Assets/Downloadablefile/BDA_Bylaws_%28v2.0%29-18618.pdf)); the licensing declaration of the Open Mobile Alliance IPR Procedural Guidelines for OMA Members (4 Feb. 2004) also provides for arbitration ([http://openmobilealliance.org/wp-content/uploads/2013/01/Member\\_IPRGuidelines\\_v53006.pdf](http://openmobilealliance.org/wp-content/uploads/2013/01/Member_IPRGuidelines_v53006.pdf)), but refers (somewhat confusingly) to the application form, according to which 'exclusive jurisdiction of the English courts to settle any disputes which may arise out of or in connection with the Application Form' (Application Form, Art. 7.1, version of 12 Mar. 2018, [www.omaspecworks.org/wp-content/uploads/2018/03/OMA-Reference-2018-0001R01-General\\_Application.pdf](http://www.omaspecworks.org/wp-content/uploads/2018/03/OMA-Reference-2018-0001R01-General_Application.pdf)).

<sup>71</sup> Cf. on ad hoc arbitration agreements in the FRAND context, Baumann, *supra* n. 24, at 149; FRAND Guidelines, *supra* n. 13, paras 16–18.



in this direction seem promising,<sup>72</sup> but authorities should not push this approach too far. The arbitral mechanism has advantages as well as disadvantages and it is not equally suited for every SEP/FRAND dispute. Experienced state courts can be very skilful and effective in resolving SEP/FRAND disputes, and parties must remain free to favour them over ADR where they feel this serves their needs and interests best.<sup>73</sup>

## 7.2 SCOPE

A suitable arbitration clause is of great importance for the success of arbitral proceedings. It determines key aspects, such as the place of arbitration, the application of soft law rules,<sup>74</sup> and the scope and subject matter of the proceedings. As to the scope of SEP/FRAND arbitration, parties must decide, in particular, whether the arbitral tribunal shall merely determine the 'price tag' for a given portfolio or whether it shall also engage in portfolio selection, scrutinizing the patents for which a license is necessary.<sup>75</sup> Further specifications on scope are possible,<sup>76</sup> for instance, regarding the methodology for determining license conditions<sup>77</sup>; whether only the license fee or the entire package of license conditions shall be determined; whether objections regarding validity, standard-essentiality, exhaustion or infringement of portfolio patents are not admitted, considered only implicitly, or fully examined and addressed by a specific decision; whether the results of assessing a sample of selected portfolio patents should be relevant for determining the licensing conditions for the whole SEP portfolio; if so, how the relevant patents are selected for the sampling exercise; forms of relief the tribunal may grant (royalty payment obligations, damages, (preliminary) injunctive relief, etc.); and whether the arbitral tribunal retains decision-making power after the termination of the arbitral proceedings, e.g. in order to be able to punish the breach of obligations arising from the arbitral award. Existing model clauses<sup>78</sup> are a

<sup>72</sup> EU Commission, *supra* n. 27: 'If they want to be safe from injunctions based on SEPs by the patent holder, they can demonstrate that they are a willing licensee by agreeing that a court or a mutually agreed arbitrator adjudicates the FRAND terms.'

<sup>73</sup> Forcing parties to generally consent to ADR may also affect their fundamental right of access to justice, cf. Charter of Fundamental Rights of the European Union, Art. 47; Convention for the Protection of Human Rights and Fundamental Freedoms, Art. 6.

<sup>74</sup> FRAND Guidelines, *supra* n. 13, paras 73–74, as well as Annex II.

<sup>75</sup> *Ibid.*, paras 39–40.

<sup>76</sup> Cf. in detail FRAND Guidelines, *supra* n. 13, paras 36–48.

<sup>77</sup> FRAND Guidelines, *supra* n. 13, paras 44–45, as well as Annex I.

<sup>78</sup> See e.g. the FRAND specific WIPO Model Submission Agreements ([www.wipo.int/amc/en/center/specific-sectors/ict/frand](http://www.wipo.int/amc/en/center/specific-sectors/ict/frand)) as well as the general WIPO Contract Clauses and Submission Agreements ([www.wipo.int/amc/en/clauses/index.html](http://www.wipo.int/amc/en/clauses/index.html)); AAA Arbitration Clauses ([www.adr.org/Clauses](http://www.adr.org/Clauses)); ICC Arbitration Clauses (<https://iccwbo.org/dispute-resolution-services/arbitration/arbitration-clause>); SCAI Arbitration Clauses ([www.swissarbitration.org/Arbitration/Arbitration-clauses](http://www.swissarbitration.org/Arbitration/Arbitration-clauses)).

good starting point for drafting the arbitration clause in a particular setting, but they will usually require individual adjustment.

## 8 CONDUCT OF PROCEEDINGS – CONFIDENTIALITY

Many factors which contribute to the successful conduct of ADR proceedings cannot be examined in detail here, including the taking of evidence,<sup>79</sup> a potential right to appeal the arbitral award,<sup>80</sup> or the appropriate balance between speed, efficiency, and due process requirements.<sup>81</sup> Confidentiality matters, however, are of such a prominence in the present discourse on SEP/FRAND ADR that they necessitate a closer look.

On the one hand, the confidentiality of ADR proceedings is, arguably, one of the most important reasons why parties prefer to settle their dispute by such means rather than in state courts.<sup>82</sup> This interest in confidentiality seems quite legitimate,<sup>83</sup> especially given the need to protect the business secrets which may surface during the proceedings. On the other hand, there is a public interest in having access to the key results of SEP/FRAND ADR proceedings. Without such access, state courts, agencies, academia, and other stakeholders will have difficulty in obtaining a comprehensive view on legal developments in the field. Nor can they carry out a critical review of potential aberrations in decisions taken by arbitral tribunals. Parties that do not regularly arbitrate (SMEs, for instance) might be at a loss evaluating their chances and strategy in potential ADR proceedings. In an area already characterized (due to collective standard-setting) by increased cooperation between competitors<sup>84</sup> and prone to the abuse of SEP ownership-based dominance,<sup>85</sup> ‘secrecy’ in a conflict resolution mechanism which is based on a consensual (arbitration) agreement may give rise to competition law concerns and corresponding law enforcement.<sup>86</sup>

<sup>79</sup> FRAND Guidelines, *supra* n. 13, paras 57–66.

<sup>80</sup> *Ibid.*, paras 84–88.

<sup>81</sup> Cf. on this, FRAND Guidelines, *supra* n. 13, paras 56, 68.

<sup>82</sup> In detail Chrocziel, Kasolowsky, Whitener & Prinz zu Waldeck und Pyrmont, *supra* n. 2, Ch. 6; FRAND Guidelines, *supra* n. 13, paras 78–79, confidentiality is by no means a mandatory characteristic of arbitration proceedings, but must in principle be agreed by the parties.

<sup>83</sup> Regarding this interest *see also* Joachim Münch, *Münchener Kommentar zur Zivilprozessordnung*, Band 3, Buch 10, Vorbemerkung zu § 1025, para. 95 (5th ed., 2017).

<sup>84</sup> *See e.g.* Thomas Weck, *Schutzrechte und Standards aus Sicht des Kartellrechts*, NJOZ 1177, 1186 (2009); Christian Koenig & Kristin Spiekermann, *EC Competition Law Issues of Standard Setting by Officially-Entrusted Versus Private Organisations*, 31 ECLR 449, 453–57 (2010); EU Commission, Guidelines on the Applicability of Art. 101 of the Treaty on the Functioning of the European Union to Horizontal Co-operation Agreements, paras 294–95; Picht, *supra* n. 8, at 2, with further references.

<sup>85</sup> Picht, *supra* n. 7, at 438 et seq.

<sup>86</sup> Cf. also, with slightly different focus, FRAND Guidelines, *supra* n. 13, para. 81.

Against this background, it is encouraging that the consultations leading up to the Munich IP Dispute Resolution Forum (IPDR) FRAND ADR Guidelines revealed a broad readiness of relevant market players to accept certain restrictions on confidentiality.<sup>87</sup> In line with this, the ICC released in 2019 an updated ‘Note to Parties and Arbitral Tribunals on the Conduct of the Arbitration under the ICC Rules of Arbitration’ which includes an opt-out approach to the publication of awards.<sup>88</sup> For SEP/FRAND ADR, proactive confidentiality restrictions by the stakeholders may prove to be a wiser approach than waiting for potential interventions by state authorities. It seems highly questionable, for instance, whether the EU Commission would simply accept being kept in the dark, due to confidentiality arrangements, on the basic competition law compliance of large-scale SEP/FRAND ADR proceedings and awards.

Considering partial disclosure of contents of SEP/FRAND arbitral proceedings does not necessarily question confidentiality in its entirety. The key is to strike a balance between legitimate party interests in confidentiality and legitimate public interests in getting hold of the ‘big picture.’<sup>89</sup> Which and how contents of SEP/FRAND ADR should be made available is a complex and novel question that requires further expert discussion and, possibly, an experimental phase. The FRAND ADR Guidelines authored by the Munich IPDR Forum provide a starting point for this discourse by suggesting, subject to party approval, the disclosure of the FRAND determination methodology applied in the respective case to a neutral instance.<sup>90</sup>

This information is of great relevance, as the ‘price tag’ for the licensing of a portfolio forms the typical centre of today’s SEP/FRAND disputes and as various contract and competition law issues play out there. At the same time, it seems possible – and necessary – to separate the abstract FRAND methodology from the economic and technical circumstances of the individual case and, thereby, to respect confidentiality where necessary.<sup>91</sup> At least as long as sufficient experience regarding such a limited disclosure mechanism is lacking, however, the parties should have the final say on whether confidentiality restrictions apply.

<sup>87</sup> FRAND Guidelines, *supra* n. 13, at 12.

<sup>88</sup> Note to Parties and Arbitral Tribunals on the Conduct of the Arbitration under the ICC Rules of Arbitration, 1 Jan. 2019, paras 40–46, <https://cdn.iccwbo.org/content/uploads/sites/3/2017/03/icc-note-to-parties-and-arbitral-tribunals-on-the-conduct-of-arbitration.pdf>.

<sup>89</sup> FRAND Guidelines, *supra* n. 13, at 12, and especially paras 78–83.

<sup>90</sup> *Ibid.*, para. 81 and Annex III.

<sup>91</sup> *Ibid.*, para. 81 and the optional clauses in Annex III.

## 9 LINKING ADR RESULTS TO (SUBSEQUENT) STATE PROCEEDINGS

### 9.1 ADR LICENSES AS COMPARABLES

The analysis of ‘comparable’ licenses (‘Comparables’) is one of the leading methods for determining SEP/FRAND license conditions.<sup>92</sup> Obviously, the compilation of Comparables forms a central step of this method and poses the question of whether licenses from arbitral proceedings can serve as Comparables. Two recent, prominent court decisions have given different answers: in *TCL v. Ericsson*, Judge Selva admitted the license determined in an arbitration between Ericsson and Huawei as Comparable without much ado.<sup>93</sup> The *Unwired Planet v. Huawei* decision by Justice Birss did not exclude the consideration of Comparables stemming from arbitral proceedings either, but made it dependent on whether the state court gets to see not only the eventual license terms but also the reasoning leading to their determination.<sup>94</sup> Although this position may, in part, have been influenced by the fact that the court was informed rather late – and somewhat unfortunately – about the ADR background of the respective Comparable,<sup>95</sup> it is true that a court can usually assess the comparative value of a license only if it is aware of some background information. In any case, the U.K. decision in *Unwired Planet v. Huawei* is another argument for moderate transparency in SEP/FRAND ADR.

### 9.2 ENFORCEABILITY – EU COMPETITION LAW AS A PUBLIC POLICY HURDLE

The cross-border enforcement of arbitral awards requires recognition and enforceability according to the New York Convention. In this article, we highlight only one of the possible enforcement obstacles under the Convention, namely a violation of public policy (Article V(2)(b)) due to non-compliance with competition law.<sup>96</sup> At least in the realm of EU law, SEP/FRAND disputes involve a strong competition law component and some enforcers, including the Court of Justice of the European Union’s (CJEU) and Advocate General Wathelet, consider Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU) to form part of public policy, possibly together with the secondary law based on these

<sup>92</sup> Peter G. Picht, *FRAND determination in TCL v. Ericsson and Unwired Planet v. Huawei: Same Same but Different?*, Max Planck Institute for Innovation and Competition Research Paper No. 18–07, 35–36.

<sup>93</sup> *TCL Commun. Tech. Holdings v. Telefonaktiebolaget LM Ericsson*, Case No. 8:14-cv-00341-JVS-DFM (C.D. Cal. 2017), Memorandum of Findings of Fact and Conclusions of Law, 82.

<sup>94</sup> *Unwired Planet Int’l Ltd. v. Huawei Technologies Co.* [2017] EWHC 711 (Pat), paras 171, 411–13.

<sup>95</sup> Cf. *ibid.*, para. 341.

<sup>96</sup> See e.g. on the grounds for setting aside under the New York Convention, which coincide mostly with Code of Civil Procedure, s. 1059(2), Musielak/Voit, *Zivilprozessordnung*, § 1061 ZPO paras 13–27 (16th ed., 2019).

provisions.<sup>97</sup> Considering its detailed, fluctuating, and at times contradictory or otherwise unconvincing nature, it is not advisable to regard the full body of EU competition law as EU public policy, after all a classification reserved for fundamental, unwaivable components of a legal system.<sup>98</sup> Nonetheless, given the present views mentioned above, ADR parties and decision-makers must not neglect the susceptibility of SEP/FRAND proceedings to *ordre public* concerns based on competition law. Especially for arbitrators, this can be more easily said than done, all the more so as important aspects at the crossroads between ADR and EU (competition) law remain unclear: does the arbitral tribunal need to apply EU competition law *ex officio* or can it restrict itself to what the parties submitted? The courts of the Member States are divided on the extent to which they can review the arbitral award and the required intensity of the competition law violation.<sup>99</sup> Advocate General Wathelet seems to prefer, in his *Genentech* opinion, a complete assessment of EU competition law independent of the parties' submissions<sup>100</sup>; the CJEU has left the question unanswered.<sup>101</sup> To give another example, the CJEU has taken a clearer, negative stance on the ability of arbitral tribunals to refer questions for preliminary ruling.<sup>102</sup> How, then, shall a SEP/FRAND arbitral tribunal deal with identified, but unresolved competition law issues? As a tentative answer, requirements must not be overstretched here. If, for example, the arbitral tribunal follows – absent final determination by the CJEU or the General Court of the European Union – the interpretation of EU competition law given by one Member State court, a contradicting interpretation<sup>103</sup> by another Member State

<sup>97</sup> Case C-126/97 *Eco Swiss China Time Ltd. v. Benetton Int'l N. V.*, paras 36–39 (1 June 1999); Opinion of Advocate General Wathelet, C-567/14, paras 55–72 (17 Mar. 2016).

<sup>98</sup> Michael Stürner, *beck-online.GROSSKOMMENTAR*, Art. 26 Rom II-VO paras 2, 14 (ed. of 1 Mar. 2019).

<sup>99</sup> In detail Chroczel, Kasolowsky, Whitener & Prinz zu Waldeck und Pyrmont, *supra* n. 2, Ch. 11, paras 39–43.

<sup>100</sup> Opinion of Advocate General Wathelet, 17 Mar. 2016, Case C-567/14, paras 55–58.

<sup>101</sup> Parallel questions may arise e.g. in pay-for-delay settlements, see Claudia Seitz, *Pay-for-delay-Verträge in der pharmazeutischen Industrie, Rechtslage und offene Fragen nach dem Lundbeck-Urteil*, EuZW 856 (2016); Alexander Eufinger, 'pay-for-delay-agreements' als wettbewerbswidrige Patentverlängerungen im Pharmabereich, PharmR 385 (2015); Peter G. Picht, *Reverse payment settlements – US Rechtslage und die Antwort des europäischen Kartellrechts*, ZWeR 83 (2014); Aaron Edlin, Scott Hemphill, Herbert Hovenkamp & Carl Shapiro, *The Actavis Inference: Theory and Practice*, Columbia Public Law Research Paper No. 14–459, <https://ssrn.com/abstract=2560107>.

<sup>102</sup> Cf. Kaneko, *supra* n. 2, at 293–96, referring to the *Nordsee* decision of the CJEU (Case 102/81), which has since been confirmed; Opinion of Advocate General Wathelet, Case C-567/14, para. 59 (17 Mar. 2016), referring to *Eco Swiss* (Case C-126/97) and *Gazprom* (Case C-536/13).

<sup>103</sup> One example from the SEP/FRAND area would be the competition law violation of any non-FRAND license offer (German courts' tendency) versus the competition law violation of only offers that deviate significantly from the FRAND level (Justice Birss' tendency in *Unwired Planet*), cf. Peter G. Picht, *Unwired Planet v. Huawei: A Seminal SEP/FRAND Decision from the UK*, GRUR Int. 569 (2017).

court cannot, as a general rule, render the arbitral award a violation of competition law-based public policy.

## 10 CONCLUSION

The growing importance of SEP/FRAND arbitration and its increasing acceptance by public and private stakeholders are good news. State jurisdiction must and will continue to play an important role, but alternative dispute resolution provides a valuable tool in this field of law and business. Several steps can further improve ADR's aptitude to handle SEP/FRAND disputes, including reasonable compliance with competition law, widely accepted confidentiality standards, or the shaping of standardized proceedings affordable for SMEs. Specific arbitral rules or principles may be an important contribution towards such a legal development, and maybe the Munich IP Dispute Resolution Forum (IPDR) Guidelines can be an impetus towards the elaboration and use of such rules.